

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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JUN 18 2012
PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY FRONTIER GAS)
COMPANY, LLC AS BANKRUPTCY OPERATOR)
OF B.T.U.GAS COMPANY FOR APPROVAL) CASE NO. 2012-
OF AN ADJUSTMENT OF THE GAS) 00214
COST ADJUSTMENT TARIFF)

PETITION FOR WAIVER FOR GCR ADJUSTMENT

Kentucky Frontier Gas Company, LLC (Frontier), by counsel, petitions for an order approving an increase of the gas cost adjustment tariff for B.T.U. Gas Company, but waiving the exclusion of gas loss in excess of five percent.

In support of its petition the following information is provided.

1. Kentucky Frontier Gas, LLC is a Colorado company authorized to do business in Kentucky. Its address is 4891 Independence St., Wheat Ridge CO 80033. Managing partners are Robert Oxford and Steven Shute. A copy of its articles organization and its certificate to operate in Kentucky were filed in Case No. 2008-00394.

2. Frontier was appointed operator of B.T.U. Gas Company by the bankruptcy trustee in Case No. 10-70767-TNW on August 11, 2011. It continues to operate the company pending an application for acquisition pursuant to an order of the bankruptcy Trustee. An order of the PSC in case No. 2012-00099 dated June 1, 2012 approved the transfer. Closing and completion of the transaction await approval of the financing and Trustee.

3. Frontier as operator of B.T.U. filed a tariff for an Interim Gas Cost Adjustment on December 20, 2011. The tariff was approved for on January 3,

2012 in Case No. 2011-00512.

4. Subsequent to the approval of the GCR rate of \$4.30 per mcf on November 2, 2011, Frontier learned that the principal supplier had rejected the proposed price on the pending contract and actually billed to B.T.U. at the rate of \$5.00 per mcf. Since no other producer could supply adequate gas to B.T.U., Frontier was obligated to take this deal to continue service on B.T.U.

5. In addition to the higher price per MCF, Frontier has learned in operating the B.T.U. system that it has an inordinately high Lost & Unaccounted for gas (L&U).

Frontier has to date identified numerous entities taking gas from B.T.U. Gas without meter or payment. Some of these "customers" claim to have a contract with B.T.U. or its former owner Richard Williams for free gas in exchange for a pipeline easement. Although most cannot produce a written document, the few written agreements presented to Frontier were mostly vague and unenforceable. No such right-of-way agreements were ever presented to or approved by the Commission. Some of these "customers" were simply stealing gas from B.T.U. Frontier has installed meters on these "customers" and has agreements with most to start paying for gas.

In addition to "customers" taking gas, Frontier has found that the B.T.U. system is interconnected with foreign pipelines. Three separate illicit connections to the Sigma system (now Frontier - Cow Creek) have been discovered and removed. These were direct and clandestine connections with no meter, both below- and above-ground, where B.T.U. was improperly stealing gas from Sigma. Area producers have similar stories, where B.T.U. concealed connections to take un-measured gas from producing wells and pipelines.

Frontier has also found two pipeline segments which have served B.T.U. customers for years, but which are now claimed by former owners Richard and

Pam Williams as belonging to "Thompson Energy", for which there is no approved PSC tariff and no record of existence in Kentucky. These two segments at Oakley and Hendricks are still connected directly to B.T.U. mains with no meter, just a block valve separating the putative Thompson lines from B.T.U. Frontier has closed these valves but has later found them cracked slightly open and feeding gas to the "foreign" sections. A case is pending before the Commission to investigate these improper connections to BTU – Case No. 2012-00028.

Frontier has received numerous tips and leads to find and eliminate these foreign intrusions into B.T.U. In the meantime, the B.T.U. system is taking in 50-100% more gas from producers than it is selling to metered customers.

Under Commission policy, a gas utility cannot recover gas costs for more than 105% of its volumetric sales to customers. The B.T.U. losses were far in excess of 5% for Frontier's first 6 months of operations, and are not expected to fall to 5% any time soon, despite Frontier's best efforts to find all illicit customers and connections.

6. The discrepancy between the approved rate and the actual gas cost due to higher MCF cost and heavy gas losses results in a significant financial impact on Frontier. Because the gas rates do not recover the actual gas costs being paid by Frontier on a monthly basis, Frontier must subsidize the gas costs incurred by B.T.U.

7. The actual loss to Frontier over the last few quarters has been reduced significantly due to Frontier's efforts to eliminate line loss and theft. However, it remains unacceptably high. The estimated loss for the next quarter is \$7,845.00. This is in addition to unreimbursed operating costs, which are much higher than usual while Frontier tries to solve the problems of gas theft and loss. A schedule of losses for the last quarter and projected for the next quarter is attached.

8. The additional unexpected gas cost will have a negative impact on

Frontier's financial condition and may threaten its ability to pay the higher gas costs to the suppliers. Failure to pay suppliers could result in discontinuance of gas supply to B.T.U.'s customers.

9. To avoid additional harm to Frontier and to attempt to avoid disconnection of gas supply to B.T.U., Frontier proposes to adjust its gas cost recovery mechanism on an interim basis. **Frontier asks for an interim waiver of the 5% limit for lost gas costs.** Without the waiver, Frontier cannot foresee continued operation of the system due to the excessive financial impact.

10. Frontier has filed with this application a GCR adjustment to reflect the actual current gas cost of \$5.1573 per MCF, but recovery of \$8.00 per MCF based on current line loss. The expected gas cost is calculated based on the last quarter's average loss of 35.5% lost and unaccounted gas – the amount actually lost for the prior several months of Frontier's operation of B.T.U. (January 72%; February 36%; March 16%). Because Frontier is proposing a rate that is not calculated based on actual gas costs and adjustments, **it requests a deviation from the GCR tariff and the filing requirements of the GCR.**

11. Any other losses not recovered by the GCR are expected to be recovered from proceeds of the sale of B.T.U. by the bankruptcy Trustee.

12. The approval of this GCR will allow Frontier to immediately begin to recover a greater portion of its actual gas costs and allow it to recover the lost revenue from the prior months' under-billings over the next several quarters.

13. Because of the timing of the bankruptcy proceedings and the financial impact the loss of revenue from the unrecovered gas costs will have on Frontier, this matter necessitates immediate action.

For these reasons, Frontier requests:

1. A deviation from the B.T.U. GCR tariff
2. A deviation from the GCR filing requirements

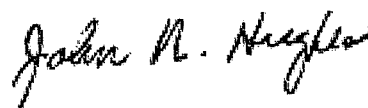
3. Approval of the proposed GCR rate

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SUBMITTED BY:

A handwritten signature in cursive script that reads "John N. Hughes".

John N. Hughes
124 W. Todd St.
Frankfort, KY 40601
502-227-7270

Attorney for
Applicant

BTU Gas Company, Inc. (dba KFG) - GAS COST RECOVERY RATE

SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

<u>Component</u>	<u>Unit</u>	<u>Amount</u>	
Expected Gas Cost (EGC)	\$/Mcf	\$8.0000	35.5% imputed L&U
Refund Adjustment (RA)	\$/Mcf	\$0.0000	
Actual Adjustment (AA)	\$/Mcf	\$1.0301	
Balance Adjustment (BA)	\$/Mcf	\$0.0000	
<u>Gas Cost Recovery Rate (GCR)</u>	<u>\$/Mcf</u>	<u>\$9.0301</u>	

Rates to be effective for service rendered from July 1, 2012

<i>Provided for informational purposes only</i>			
A. EXPECTED GAS COST CALCULATION	<u>Unit</u>	<u>Amount</u>	
Total Expected Gas Cost (Sch II)	\$/Mcf	\$126,918	5% Actual L&U \$278,581
/Sales for the 12 months ended	\$/Mcf	23,379	23,379
<u>Expected Gas Cost</u>	<u>\$/Mcf</u>	<u>\$5.4287</u>	<u>\$11.9159</u>
 B. REFUND ADJUSTMENT CALCULATION	 <u>Unit</u>	 <u>Amount</u>	
Supplier Refund Adjustment for Reporting Period (Sch III)	\$/Mcf	\$0.0000	
+Previous Quarter Supplier Refund Adjustment	\$/Mcf		
+Second Previous Quarter Supplier Refund Adjustment	\$/Mcf		
+Third Previous Quarter Supplier Refund Adjustment	\$/Mcf		
<u>=Refund Adjustment (RA)</u>	<u>\$ Mcf</u>	<u>\$0.0000</u>	
 C. ACTUAL ADJUSTMENT CALCULATION	 <u>Unit</u>	 <u>Amount</u>	
Actual Adjustment for the Reporting Period (Sch IV)	\$/Mcf	\$1.0301	
+Previous Quarter Reported Actual Adjustment	\$/Mcf		
+Second Previous Quarter Reported Actual Adjustment	\$/Mcf		
+Third Previous Quarter Reported Actual Adjustment	\$/Mcf		
<u>=Actual Adjustment (AA)</u>	<u>\$ Mcf</u>	<u>\$1.0301</u>	
 D. BALANCE ADJUSTMENT CALCULATION	 <u>Unit</u>	 <u>Amount</u>	
Balance Adjustment for the Reporting Period (Sch V)	\$/Mcf	\$0.0000	
+Previous Quarter Reported Balance Adjustment	\$/Mcf		
+Second Previous Quarter Reported Balance Adjustment	\$/Mcf		
+Third Previous Quarter Reported Balance Adjustment	\$/Mcf		
<u>=Balance Adjustment (BA)</u>	<u>\$ Mcf</u>	<u>\$0.0000</u>	

BTU Gas Company, Inc (dba KFG) - GAS COST RECOVERY RATE

SCHEDULE II

**EXPECTED GAS COST
Provided for informational purposes only**

Actual Mcf Purchases for 12 months ended March 31, 2012

(1) Supplier	(2) Dth	(3) Btu Conversion Factor	(4) Mcf	(5) Rate	(6) (4) x (5) Cost
Gibraltar			2,566	\$3.60	\$9,238
Gray			4,036	\$3.6000	\$14,530
HI-Energy			537.00	\$4.8000	\$2,578
KY Reserves			16,576	\$5.40	\$89,510
Slone			273	\$4.50	\$1,229
Spirit			22,247	\$6.00	\$133,482
Tackett			5,027	\$3.60	\$18,097
Walker			2,755	3.6	\$9,918
Totals			54,017		\$278,581

Line loss for 12 months ended 3/31/2012 is based on purchases of 54,017
and sales of 23,379 Mcf. 56.72%

	Using 5% limit	Using actual L&U
Total Expected Cost of Purchases (6)	\$278,581	\$278,581
/ Mcf Purchases (4)	54,017	54,017
= Average Expected Cost Per Mcf Purchased	\$5.1573	\$5.1573
x Allowable Mcf Purchases (must not exceed Mcf sales / .95)	24,609.47	54,017
= Total Expected Gas Cost (to Schedule IA)	\$126,918	\$278,581

BTU Gas Company, Inc. (dba KFG) - GAS COST RECOVERY RATE

SCHEDULE IV

ACTUAL ADJUSTMENT

For the 12 month period ended

March 31, 2012

For information purposes only - Using 5 percent line loss limiter

Particulars	Unit	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
Total Supply Volumes Purchased	Mcf	7550	12217	11374	8596	4324
Total Cost of Volumes Purchased	\$	\$34,173.00	\$55,639.00	\$47,145.00	\$35,345.00	\$17,420.00
/ Total Sales *	Mcf	7,172.5	11,606.2	10,805.3	8,166.2	4,107.8
= Unit Cost of Gas	\$/Mcf	\$4.7644	\$4.7939	\$4.3631	\$4.3282	\$4.2407
- EGC in Effect for Month	\$/Mcf	\$8.0000	\$8.0000	\$8.0000	\$8.0000	\$8.0000
= Difference	\$/Mcf	(\$3.2356)	(\$3.2061)	(\$3.6369)	(\$3.6718)	(\$3.7593)
x Actual Sales during Month	Mcf	2,890.0	5,632.0	3,042.0	5,523.0	3,618.0
= Monthly Cost Difference	\$	(\$9,350.75)	(\$18,056.62)	(\$11,063.34)	(\$20,279.32)	(\$13,601.10)

Total Cost Difference	\$	(\$72,351.12)
/ Sales for 12 months ended	Mcf	23,379
= Actual Adjustment for the Reporting Period (to Sch IC)		(\$3.0947)

* May not be less than 95% of supply volume

Proposed - Using actual sales with no line loss limiter

Particulars	Unit	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
Total Supply Volumes Purchased	Mcf	7550	12217	11374	8596	4324
Total Cost of Volumes Purchased	\$	\$34,173.00	\$55,639.00	\$47,145.00	\$35,345.00	\$17,420.00
/ Total Sales *	Mcf	2,890.0	5,632.0	3,042.0	5,523.0	3,618.0
= Unit Cost of Gas	\$/Mcf	\$11.8246	\$9.8791	\$15.4980	\$6.3996	\$4.8148
- EGC in Effect for Month	\$/Mcf	\$8.0000	\$8.0000	\$8.0000	\$8.0000	\$8.0000
= Difference	\$/Mcf	\$3.8246	\$1.8791	\$7.4980	(\$1.6004)	(\$3.1852)
x Actual Sales during Month	Mcf	2,890.0	5,632.0	3,042.0	5,523.0	3,618.0
= Monthly Cost Difference	\$	\$11,053.00	\$10,583.00	\$22,809.00	(\$8,839.00)	(\$11,524.00)

Total Cost Difference	\$	\$24,082.00
/ Sales for 12 months ended	Mcf	23,379
= Actual Adjustment for the Reporting Period (to Sch IC)		\$1.0301

The estimated losses for next quarter are:

Month	Est. Sales	Est. Purch.MCF	Est. Costs	Est. Purch MCF	Est. Costs	Est. Loss
	(MCF)	@ 5% L&U	@ \$5.1573	@ 35.5% L&U	@ \$4.50	
July	1,056	1,109	\$5,719	1,637	\$7,367	\$2,615
Aug	1,056	1,109	\$5,719	1,637	\$7,367	\$2,615
Sep	1,056	1,109	\$5,719	1,637	\$7,367	\$2,615

Total Projected Loss \$7,845